

# PROPOSED RESOLUTION

RES. W-4990  
DWA/RSK/ds4

AGENDA ID #13042

## UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION W-4990  
June 12, 2014

### RESOLUTION

**(RES. W-4990) BEASORE MEADOWS WATER  
COMPANY. ORDER AUTHORIZING A GENERAL RATE  
INCREASE PRODUCING ADDITIONAL ANNUAL  
REVENUE OF \$4,680, OR 21.2%, FOR TEST YEAR 2014.**

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### SUMMARY

By Advice Letter No. (AL) 18-W, filed on December 23, 2013, Beasore Meadows Water Company (BMWC) seeks an increase in its rates for water service to recover water plant additions and earn an adequate return on its plant investment. For Test Year (TY) 2014, this resolution grants an increase in gross annual revenues of \$4,680, or 21.2%, which is estimated to provide a return on ratebase of 11.8%.

### BACKGROUND

BMWC is a Class D water utility that has requested authority under General Order 96-B, General Rule 7.6.2, Water Industry Rule 7.3.3(5), and Public Utilities Code Section No. 454 to increase its water rates by \$4,657, or 23.57%, for TY 2014. The purpose of the rate increase is to recover water plant additions and to provide an adequate rate of return. BMWC'S request shows gross revenues of \$19,310 at present rates increasing to \$23,967 at the proposed rates. BMWC is requesting a return-on-ratebase of 12.90%.

The last general rate increase was granted on January 27, 2005, pursuant to Resolution (Res.) W-4511, which authorized a rate increase of \$7,815, or 93.2%, resulting in a rate of return (ROR) of 12.90% for TY 2003. The present rates became effective on April 3, 2013 pursuant to the approval of AL 17-W which requested a Consumer Price Index (CPI) adjustment of 1.7%.

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BMWC provides water service to 75 flat rate customers on a seasonal basis from June 1 through October 30 of each calendar year, depending on weather and accessibility to the water system. BMWC is located approximately 20 miles from Bass Lake, Madera County, at an elevation above 5,000 feet. Access to the service area of the utility is seasonal because the road typically closes because of snow.

The water source for the system is a set of five springs located ¼ mile to the west of its storage tanks on US Forest lands. These springs gravity feed into three storage tanks; two newly installed 5,000 gallon polypropylene (plastic) tanks, as well as to an older cement block water storage tank, estimated to hold 50,000 gallons. Water is then distributed through a combination of steel and PVC pipes.

According to the Madera County Environmental Health Department (MCEHD), the water quality is satisfactory.

### **NOTICE**

BMWC sent a notice, dated January 11, 2014, of the proposed general rate increase request to all its customers. The Division of Water and Audits (Division) received no responses or protests regarding the proposed rate increase.

### **DISCUSSION**

The Division made an independent analysis of BMWC's general rate increase request. Appendix A shows BMWC's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in BMWC's and the Division's estimates in operating revenues, expenses, and rate base. BMWC was informed of the Division's differing views of revenues, expenses and rate base and agrees with the Division's findings.

Division staff reviewed operating revenues and expenses including employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. Division staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

The major differences in expenses were in the following categories: (1) Management Salaries, and (2) Insurance. The Division's estimates were based on actual billings and past-recorded expenses.

BMWC has charged time spent by its owner and manager, Ms. Sheila Kliewer, to the Employee Labor account. BMWC does not have any employees. The Division reviewed the work activities and time spent by Ms. Kliewer and included this amount

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in the Management Salaries account instead. For insurance, the Division used the actual insurance invoice for 2014.

The Division reviewed BMWC's plant additions since its last general rate increase and concurs with the additions BMWC has made to plant totaling \$20,918. This includes the installation of two 5,000 gallon polypropylene (plastic) storage tanks at a cost of \$13,022. These tanks currently serve as a supplement to BMWC's existing cinder block tank which is in need of further repair.

For calendar year 2013, the MCEHD billed BMWC an annual fee of \$462. The Division has updated the tariff sheets accordingly to reflect this fee as a one-time surcharge of \$6.16 for the 75 active customers. BMWC normally files a Tier 1 advice letter each year for recovery of this fee, which changes annually, along with its Consumer Price Index (CPI) adjustment. As CPI adjustments are not allowed in test years, the Division has incorporated BMWC's MCEHD fee into the tariff sheets. Customers will be notified of this fee in their annual water bill.

In Decision (D.) 92-03-093, effective April 30, 1992, the Commission adopted the operating ratio method of ratemaking as an alternative to the rate of return method on rate base for Class C and D utilities. Ordering Paragraph 8 of D.92-03-092 states:

*Division is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and Class D water companies requesting new rates and to recommend to the Commission the rate method that produces the higher results.*

BMWC is a Class D water utility. The Division has conducted an analysis of the financial market changes with the last year and the high operational risks faced by Class D water companies and has determined that the appropriate range for Return on Equity (ROE) is 10.8% - 11.8% and a Return of Margin (ROM) of 21.69%.

Using the ROM method with a ROM of 21.69%, Division's estimate of BMWC's revenue requirement is \$26,360. The Division recommends the high point of the range, or 11.8%, return on rate base because BMWC is a well-run utility that has been making needed plant additions and repairs. Using this figure, Division calculates a revenue requirement of \$26,735. Division recommends the return on rate base method since it produces the higher revenue requirements.

BMWC'S current rate structure consists of two rate schedules – 1S, Seasonal Metered Service and 2RS, Seasonal Residential Flat Rate Service. At the present time, BMWC has 75 flat rate customers who are billed once a year in the month of June. Even though BMWC does not have any metered customers, Schedule 1S is provided for future circumstances. The new rate schedules are included in Appendix B.

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At the Division's recommended rates for seasonal residential flat rate service, as shown in Appendix C, the annual bill for a single-family residential unit will increase from \$294.07 to \$356.47, or 21.2%. The adopted tax calculations are shown in Appendix D.

## **COMPLIANCE**

BMWC is currently providing water service to its customers according to the standards of General Order (G.O.) 103-A. There are no outstanding Commission orders requiring system improvements and the utility has been filing annual reports as required. According to MCEHD, the water quality is satisfactory.

## **COMMENTS**

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day public review period.

## **FINDINGS**

1. The Summary of Earnings (Appendix A) recommended by the Division of Water and Audits (Division) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the recommendations of the Division are reasonable and should be adopted.
4. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. This is an uncontested matter exempt from public notice and comment, as provided in Public Utilities Code Section 311(g)(3).

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### **THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454, for Beasore Meadows Water Company to file a supplement to Advice Letter No. 18-W to incorporate the rate schedules (Appendix B), and to concurrently cancel its presently effective Rate Schedules No. 1S, Seasonal Metered Service, and No 2RS, Seasonal Residential Flat Rate Service. The effective date of the revised rate schedule shall be 5 days after the date of filing.
2. Beasore Meadows Water Company is authorized to increase the Test Year 2014 water revenues by \$4,680, or 21.2%.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on June 12, 2014; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

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## APPENDIX A Summary of Earnings – Test Year 2014

		<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Adopted</u>
		<u>Present</u>	<u>Requested</u>	<u>Present</u>	<u>Requested</u>	
	<u>Item</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
	<b><u>Operating Revenue</u></b>					
	Flat Sales	\$ 21,247	\$ 23,967	\$ 22,055	\$ 23,967	\$ 26,735
	Metered Water Sales	\$ -	\$ -	\$ -	\$ -	
	Total Revenues	\$ 21,247	\$ 23,967	\$ 22,055	\$ 23,967	\$ 26,735
	<b><u>Operating Expenses</u></b>					
610	Purchased Water	\$0	\$0	\$0	\$0	\$0
615	Purchased Power	\$0	\$0	\$0	\$0	\$0
618	Other Volume Related Expenses	\$0	\$0	\$0	\$0	\$0
630	Employee Labor	\$0	\$0	\$0	\$0	\$0
640	Materials	\$179	\$179	\$362	\$362	\$362
650	Contract Work	\$2,856	\$2,856	\$2,856	\$2,856	\$2,856
660	Transportation Expenses	\$930	\$930	\$908	\$908	\$908
664	Other Plant Maintenance	\$1,223	\$1,223	\$210	\$210	\$210
670	Office Salaries	\$0	\$0	\$0	\$0	\$0
671	Management Salaries	\$4,490	\$4,490	\$7,500	\$7,500	\$7,500
674	Employee Benefits	\$1,392	\$1,392	\$2,166	\$2,166	\$2,166
676	Uncollectibles Expense	\$0	\$0	\$600	\$600	\$600
678	Office Services & Rentals	\$465	\$465	\$223	\$223	\$223
681	Office Supplies & Expenses	\$310	\$310	\$550	\$550	\$550
682	Professional Services	\$596	\$596	\$1,000	\$1,000	\$1,000
684	Insurance	\$2,655	\$2,655	\$1,266	\$1,266	\$1,266
688	Regulatory Commission Expense	\$390	\$390	\$261	\$261	\$261
689	General Expenses	\$447	\$447	\$1,200	\$1,200	\$1,200
	<b>Subtotal</b>	\$ 15,933	\$ 15,933	\$ 19,102	\$ 19,102	\$ 19,102
	Depreciation	\$ 1,051	\$ 1,051	\$ 1,095	\$ 1,095	\$ 1,095
	Taxes other than Income	\$ 379	\$ 379	\$ 210	\$ 210	\$ 210
	Income Taxes	\$ 1,422	\$ 1,422	\$ 927	\$ 1,214	\$ 1,629
	Interest					
	<b>Total Deductions</b>	\$18,785	\$18,785	\$21,334	\$21,621	\$22,036
	<b>Net Revenue</b>	\$2,462	\$5,182	\$721	\$2,346	\$4,699
	<b><u>Rate Base</u></b>					
	Average Plant	\$ 67,538	\$ 67,538	\$ 67,538	\$ 67,538	\$ 67,538
	Ave. Accumulated Depreciation	\$ 27,576	\$ 27,576	\$ 28,124	\$ 28,124	\$ 28,124
	<b>Net Plant</b>	\$ 39,962	\$ 39,962	\$ 39,414	\$ 39,414	\$ 39,414
	<u>Less</u> Advances	\$ -	\$ -	\$ -	\$ -	\$ -
	Contributions	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>Plus</u> Working Cash	\$ -	\$ -	\$ -	\$ -	\$ -
	Materials & Supplies	\$ 200	\$ 200	\$ 400	\$ 400	\$ 400
	<b>Rate Base:</b>	\$ 40,162	\$ 40,162	\$ 39,814	\$ 39,814	\$ 39,814
	<b><u>Rate of Return</u></b>	6.13%	12.90%	1.81%	5.89%	11.80%

(END OF APPENDIX A)

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## APPENDIX B

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### Schedule No. 2RS

#### SEASONAL RESIDENTIAL FLAT RATE SERVICE

##### APPLICABILITY

Applicable to all flat rate residential water service furnished on a seasonal basis. Service is limited to the period of access to the subdivision and assumed to be June 1 through October 30.

##### TERRITORY

Beasore Tracts and vicinity, northeast of Bass Lake, Madera County.

##### RATES

	Effective	
	Per Service Connection	
	<u>Per Summer Season</u>	
For a single-family residential unit, including premises. ....	\$ 356.47	(I)
For each additional single-family residential unit on the same premises and served from the same service connection .....	\$ 51.08	(I)

##### SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than 3/ 4-inch in diameter.
2. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule 1S, Seasonal Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.
3. Service may be taken under this schedule for summer season only.

(cont)

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### APPENDIX B (cont)

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Schedule No. 2RS  
(continued)

#### **SEASONAL RESIDENTIAL FLAT RATE SERVICE**

4. The opening bill for flat rate service shall be the established seasonal flat rate charge for the service. Where initial service is established after the first day of any season, the portion of such seasonal charge applicable to the current season shall be determined by multiplying the seasonal charge by one one-hundred-fiftieth ( $1/150$ ) of the number of days remaining in the season. The balance of the payment of the initial seasonal charge shall be credited against the charges for the succeeding seasonal period in which service is taken. If service is not continued for at least five months of the first year after the date of initial service, no refund of the initial seasonal charges shall be due the customer. (N)

5. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (N)

6. As authorized by the California Public Utilities Commission, all bills are subject to a one-time surcharge of \$6.16. This charge offsets the Department of Health Services Fee as billed to Beasore Meadows Water Company for calendar year 2013. (N)

(cont)



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Schedule No. 1S

### SEASONAL METERED SERVICE

#### APPLICABILITY

Applicable to all metered water service furnished on a seasonal basis. Service is limited to the period of access to the subdivision and assumed to be May 1 through October 30.

#### TERRITORY

Beasore Tracts and vicinity, northeast of Bass Lake, Madera County.

#### RATES

		Effective	
Quantity Rate:			
All water per 100 cu. ft.		\$ 1.78	(I)
		Per Meter Per Season	
		<u>Effective</u>	
Service Charge			
For 5/ 8 x 3/ 4-inch meter. . . . .		\$322.94	(I)
For 3/ 4-inch meter. . . . .		\$481.92	(I)
For 1-inch meter. . . . .		\$644.43	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

#### SPECIAL CONDITIONS

1. Service may be taken under this schedule for summer session only.
2. The seasonal service charge is payable in advance on or before the initial day of the season, or the day service is begun.
3. Meters may be read monthly, bi-monthly, or seasonally at the option of the utility. Bills will be rendered accordingly.

(cont)

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Schedule No. 1S  
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#### SEASONAL METERED SERVICE

4. The opening bill for metered service, except upon conversion from flat rate service, shall be the established seasonal service charge for the connection. Where initial service is established after the first day of any season, the portion of such seasonal charge applicable to the current season shall be determined by multiplying the seasonal charge by one one-hundred-fiftieth ( $1/150$ ) of the number of days remaining in the season. The balance of the payment of the initial seasonal charge shall be credited against the charges for the succeeding seasonal period in which service is taken. If service is not continued for at least five months of the first year after the date of initial service, no refund of the initial seasonal charges shall be due the customer. (N)
5. As authorized by the California Public Utilities Commission, all bills are subject to a one-time surcharge of \$ 6.16. This charge offsets the Department of Health Services Fee as billed to Beasore Meadows Water Company for calendar year 2013. (N)
6. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (N)

(END OF APPENDIX B)

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## APPENDIX C

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### COMPARISON OF RATES

A comparison of present and Branch's recommended rates for flat rate service for test year 2014 is shown below:

	<u>Per Service Connection Per Summer Season</u>		<u>Dollar Increase</u>	<u>%</u>
	<u>Present Rates</u>	<u>Adopted Rates</u>		
For a single-family residential Unit, including premises.....	\$294.07	\$356.47	\$62.40	21.2%
For each additional single-family Residential unit on the same Premises and served from the Same service connection.....	\$ 42.14	\$ 51.08	\$8.94	21.2%
5/ 8 x 3/4 inch meter	\$266.41	\$322.94	\$56.53	21.2%
3/4 inch meter	\$397.56	\$481.92	\$84.36	21.2%
1 inch meter	\$531.63	\$644.43	\$112.80	21.2%
Quantity Rate:				
All water per 100 cu.ft.	Present Rate \$1.47	Adopted Rate \$1.78	% increase 21.2%	

(END OF APPENDIX C)

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## APPENDIX D

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### ADOPTED QUANTITIES

Test Year 2014

Property Tax: \$210

Flat Rate customers: 75

Water testing (included in Contract Work): \$120

#### INCOME TAX CALCULATION

Operating Revenues	\$ 26,735	\$ 26,735
Expenses	\$ 19,102	\$ 19,102
TOIT	\$ 210	\$ 210
Depreciation	\$ 1,095	\$ 1,095
Interest	\$ -	\$ -
State Taxable Income	\$ 6,328	\$ 6,328
State Tax (@8.84% or \$800 min.)	\$ 800	
Federal Taxable Income		\$ 5,528
Federal Taxable Income (@15%)		829
Federal Taxable Income (@25%)		-
Federal Taxable Income (@34%)		\$ -
Federal Taxable Income (@39%)		\$ -
State Tax		\$ 800
Federal Tax		\$ 829
Total Taxes		\$ 1,629

(END OF APPENDIX D)

# CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W- 4990 on all parties in these filings or their attorneys as shown on the attached lists.

Dated June 2, 2014 at San Francisco, California.

/s/ DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

**BEASORE MEADOWS WATER COMPANY  
ADVICE LETTER 18  
SERVICE LIST**

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Oakhurst, CA 93644

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